Committee On Finance

Max Baucus, Ranking Member

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Speech of U.S. Senator Max Baucus Regarding Asia Trade Policy to the Institute of International Economics

INTEGRATION OF ASIAN ECONOMIES

Last week China and the ten countries of the Association of Southeast Asian Nations signed what may be the world's most ambitious trade agreement. When fully implemented, it will create an integrated regional market for over 1.8 billion people, or nearly one-third of the Earth's population.

ASEAN is pursuing similar trade deals with Australia, New Zealand, India, South Korea, and Japan. Japan and the Philippines recently announced a breakthrough in their negotiations for a free trade agreement. Japan hopes that breakthrough will give momentum to its ongoing negotiations with Malaysia, Thailand, and South Korea.

South Korea, meanwhile, has concluded talks on a bilateral free trade agreement with Singapore. And Singapore is pursuing deals with Japan, Mexico, and ASEAN.

LEAVING ASIA TO THE ASIANS

Where is the United States in all this? After all, we are also a Pacific power. And in the past, we have played a pivotal role in Asia trade and economic development.

A tough U.S. line in negotiating China's entry into the WTO throughout the 1990s persuaded China to reduce its tariffs to the lowest levels of any developing country. A bilateral trade agreement with Vietnam in 2001 quadrupled our trade with that country, fundamentally changed Vietnam's trade regime, and is helping to liberalize its economy. And working mainly with Japan, Taiwan, and Korea in the mid-90s, we negotiated the hugely successful Information Technology Agreement. The ITA eliminated tariffs on 90 percent of world trade in information technology products. This one agreement now covers half a trillion dollars in trade annually.

Asia has moved beyond these achievements. But the United States has not. By and large, the Administration has greeted the proliferation of Asian negotiations and agreements with indifference. During its first term, the Administration started free trade talks with twenty countries around the globe. But only one of those is with an Asian nation – Thailand. When the ASEAN countries met in September to discuss economic integration, the United States declined the invitation to send a trade official – for the second year in a row.

The Administration appears not at all concerned that America could be disadvantaged by an Asia that looks increasingly inward for consumer products and investment. On trade, we appear content to leave Asia to the Asians.

AMERICA SHOULD PARTICIPATE IN ASIA'S GROWTH

That's a mistake. Asia is home to five of the top ten U.S. trading partners, seven of the last decade's eleven fastest-growing economies, and more than half the world's population. Few doubt that Asia will be home to many of the fastest growing economies for at least the next generation. If we do not participate in that growth – if we are marginalized in Asia by preferential regional arrangements – our economy will suffer in the long run.

And as our economic engagement with the region declines, we will inevitably lose the influence we have enjoyed in Asia since at least 1898, when the United States occupied the Philippines at the end of the Spanish-American War.

I'm not suggesting that we should seek to slow or reverse Asian economic integration. Far from it. Greater intra-Asian trade will help stimulate reform, raise standards of living, and provide Asians with more disposable income. That can further consolidate democratic gains in the region and create a more lucrative consumer market.

I am concerned, however, that the United States is ill-positioned to benefit from Asian integration. As we focus our trade policy efforts on small economies with little commercial potential, Asia's economies are laying the foundation for a future in which the United States plays a much diminished role.

Many Asian countries would like us to be more engaged in Asia, if only to check the rising power of China – a partner to many countries in the region, but also a major competitor.

THE RISE OF CHINA

Whenever one talks about Asia, the elephant in the room is, of course, China. China accounts for nearly a quarter of total world trade growth. Foreign direct investment will top $60 billion this year, a record for China and more than any other country in the world. China's growing middle class – expected to reach 230 million people next year – spends more than $900 billion a year. And if China's real income grows by just 8 percent per year – less than its average 9.5 percent GDP growth for the last two decades – the top 100 million households by 2020 will have an average income equivalent to the current average in Western Europe.

China is clearly the region's emerging colossus. As such, it has the most to gain by encouraging the development of an Asian regional trade bloc – with China at its core. It should come as no surprise, then, that China is a main proponent and driver of Asian integration. But its methods go far beyond simply negotiating trade agreements.

China has launched a major charm offensive to promote itself throughout Asia as a desirable place to live, to visit, and to invest. Through China Radio International, worldwide television broadcasts, and language and cultural centers across Asia, the Chinese government touts China as an attractive destination for Asians, with a familiar culture and similar values.

And it is working beautifully. Increasingly Asians are foregoing trips to Los Angeles and traveling to Beijing instead. For many young Asians, Shanghai is the new Manhattan. That trend is buoyed by the difficulties foreign tourists, students, and businesspeople face in securing a visa to visit the United States after September 11th.

Chinese citizens are visiting the rest of Asia in greater numbers than ever before. They bring with them their money and their optimism about the future of the "new China." It is a far more enticing China than their parents could have imagined, with gleaming skyscrapers, modern productive industries, and a rapidly developing infrastructure. These informal ambassadors reinforce the general sense in Asia that while the twentieth century belonged to America, the twenty-first belongs to China.

I mean no criticism of China. In fact, in many ways, China's strategy is reminiscent of the way that the United States promoted its culture and values all over the world during the Cold War. But America appears unable or unwilling to respond to China's efforts to integrate Asia economically to its advantage. This Administration's trade policy is dictated largely by its foreign policy, not by economics. And as a result, Asian countries are increasingly looking to China as their primary economic partner, just as they once looked to America.

A PROPOSED NEW DIRECTION

I have several suggestions to help reverse this trend. First, we should consider negotiating more free trade agreements in Asia. In particular, we should consider negotiating agreements with Malaysia, Japan, Korea, and Taiwan.

A free trade agreement with Malaysia would likely be the easiest of these to negotiate. Malaysia has a reformist prime minister interested in forging closer economic ties with the United States. The country was among our top ten trading partners last year. The benefits for both the United States and Malaysia are obvious. Negotiations with Japan, Korea, and Taiwan would be more difficult, but the potential rewards are worth the effort.

Japan, of course, is the world's second largest economy, and by far the largest in Asia. An FTA with the United States could help pull Japan – once and for all – out of its economic doldrums. It could also provide just the political impetus Prime Minister Koizumi needs to push through his long-planned – and long-stalled – economic reforms. When I visited Japan earlier this year and mentioned the possibility of a U.S.-Japan FTA, Japanese businesspeople were excited about the prospect. It would certainly be an ambitious and difficult agreement. But the benefits of further opening Japan's market to U.S. products would be enormous for U.S. farmers, workers, and businesses, as well as for Japanese consumers.

Policymakers have talked about a U.S.-Korea FTA for decades. Various studies have endorsed the idea and predicted benefits for both sides. But no concrete action has ever been taken. Last year, Korea was the eleventh-largest economy in the world and our seventh largest trading partner, with two-way trade near $60 billion. That's a huge market for U.S. products, many of which now face high hurdles to get into the Korean market. A U.S.-Korea FTA would give America a firm economic foothold in Asia and allow Korea to reduce its economic dependence on Japan and China.

Like Japan and Korea, Taiwan holds huge potential as a market for U.S. products. It is the fifth-largest economy in Asia and was our eighth-largest trading partner last year – just after Korea – with two-way trade of almost $50 billion. And Taiwan recently made great strides in improving protections for intellectual property. That prompted the United States to restart long-delayed talks on a Trade and Investment Framework Agreement.

There are those who will say we can't negotiate free trade agreements with Japan, with Korea, or with Taiwan. The negotiations will be too hard, the politics too sensitive, and it will take too long. I answer them as President Kennedy explained his decision to send a man to the moon. We should negotiate these agreements not because it would be easy, but because it would be hard. And because it would focus our attention and efforts where the greatest benefits lie – Asia.

In addition to more FTAs in Asia, we should reinvigorate APEC. APEC offers the United States a ready-made forum in which to push for improved access to Asian markets – and to fight against being left out of regional Asian trade arrangements. But in recent years, APEC summits have focused more on security than on trade. The United States should take the lead in returning APEC to its traditional role as a trade liberalizing forum, perhaps by accepting the challenge of negotiating an APEC-wide free trade agreement.

We should also consider further sectoral initiatives like the Information Technology Agreement. With Asia's rapidly aging population, a sectoral agreement to reduce tariffs and other barriers to trade in advanced medical equipment seems a natural candidate.

And finally, we should devote more resources to enforcing our rights in Asia more aggressively. Many Asian countries have terrible records protecting intellectual property, for instance. Each year, U.S. companies lose billions of dollars to piracy in Asia alone.

We should also work harder to identify and remove non-tariff barriers that keep U.S. products out of Asian markets unfairly. The U.S. auto industry has complained for years that non-tariff barriers in Asia like discriminatory taxes and standards have kept American cars out of these markets. Low tariffs do little good if a market is otherwise closed to trade.

CONCLUSION

When we talk about trade, we should never forget what the conversation is really all about – jobs and the health of the U.S. economy, now and in the future. Regional integration in Asia without the United States means U.S. farmers and companies will have to compete in Asia on unattractive terms with their Asian competitors, particularly those in China. That means fewer sales, fewer American jobs, and a slower U.S. economy.

The prospect of American products being squeezed out of any region should cause U.S. policymakers concern. But when that region is Asia – likely to be a main engine of global growth for the foreseeable future – it should cause real alarm.

The 1990s showed us what economic engagement with Asia can achieve. Re-engaging Asia today will determine whether we help shape Asia's economic future or are merely shaped by it.

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